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BANGLADESH

Key Economic Indicators

(Millions of U.S. dollars unless otherwise noted)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP	33,012	34,104	36,482
Real GDP Growth (pct) 2/	5.9	5.7	5.2
GDP by Sector:			
Agriculture	9,618	9,770	10,927
Manufacturing	3,049	3,275	3,262
Services	17,462	18,307	19,379
Government	N/A	N/A	N/A
Per Capita GDP (US$)	263	270	284
Labor Force (000s)	N/A	N/A	N/A
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.8	10.1	13.1
Consumer Price Inflation	2.6	7.0	9.0
Exchange Rate (Taka/US$ annual average)			
Official	42.8	45.4	47.95
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB	4,406	5,161	5,313
Exports to U.S. 3/	1.679	1,846	N/A
Total Imports CIF	7,162	7,524	7,515
Imports from U.S. 3/	259	318	N/A
Trade Balance	-2,756	-2,363	-2,202
Balance with U.S. 3/	1,420	1,528	N/Q
External Public Debt 4/	15,025	15,855	16,234
Fiscal Deficit/GDP (pct)	4.5	4.2	5.3
Current Account Deficit/GDP (pct)	2.4	3.6	4.2
Debt Service Payments/GDP (pct)	1.0	1.0	1.0
Gold and Foreign Exchange Reserves	1,719	1,751	1,522
Aid from U.S. 5/	73.6	77.0	153.0

Aid from All Sources 6/	1,481	1,419	1,502

1/ The Bangladesh fiscal year is July 1 to June 30.

2/ Percentage change calculated in local currency.

3/ Figures are for the calendar year.

4/ Medium and long-term.

5/ Figures are for the U.S. fiscal year (October 1-September 30).

6/ Disbursements.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed countries; its per capita income for fiscal year 1999 (July 1, 1998 to June 30, 1999) is estimated at $285. A large proportion of its population of approximately 128 million is tied directly or indirectly to agriculture, which accounts for 30 percent of Gross Domestic Product (GDP) and about 70 percent of the labor force. Economic growth in fiscal year 1998-99 (FY 99) dropped one half a percentage point to 5.2 percent, primarily due to the disruptions cause by severe floods in 1998; nevertheless, it remained above the average annual growth rate of 4.0 to 4.5 percent over the last ten years. Even a 5-6 percent GDP growth rate, however, is inadequate to relieve the poverty faced by over half the population.

GDP growth has been dampened over the years by a number of factors: low productivity growth in the agricultural sector, political and policy instability, poor infrastructure, corruption, and low domestic savings and investment. The state's presence in the economy continues to be large, and money-losing state enterprises have been a chronic drain on the treasury. Nonetheless, during the 1990's Bangladesh liberalized its economy, and the private sector assumed a more prominent role as the climate improved for free markets and trade. The Awami League government, which came to power in June 1996, has largely continued the market-based policies of its predecessor, the Bangladesh Nationalist Party, and made some regulatory and policy changes toward that end. However, implementation of new policy directives by the bureaucracy has been slow and uneven.

Bangladesh suffered its worst flood in history during the summer and fall of 1998. The economic damage is difficult to estimate, but could have reached $1 billion. A large proportion of the winter rice crop could not be planted, which increased the food import bill dramatically despite the assistance of donor nations. The United States donated 700,000 metric tons of wheat. The World Bank and the International Monetary Fund (IMF) provided emergency balance of payment relief of about $320 million. For over two years, the IMF and Bangladesh have held inconclusive Enhanced Structural Adjustment Facility discussions, and an agreement is still not in sight. As of November 8, 1999, Bangladesh's foreign exchange reserves stood at about $1.6 billion, which is less than three months of import cover, but is considered normal for Bangladesh. These reserves have remained generally stable between $1.5 to $1.9 billion since November 1996.

Inflation increased to nine percent in FY99, up from seven percent in FY98, reflecting flood-induced food price hikes in the first half of the fiscal year; in the second half of FY99, and into FY2000, inflation has continued to decline as good harvests have driven down food grain prices. Since Bangladesh has limited trade and investment links overseas, the economy was not greatly affected by either the Asian financial crisis, nor has it benefited much from the ongoing recovery in the Asian economies. However, to respond to a continuing overvaluation of the taka relative to its competitors, Bangladesh devalued its currency by three percent in FY99, and an additional 2.1 percent to date in FY2000. Bangladesh's export performance, heavily concentrated in garments, slowed down to six percent growth in FY99, after several years of over 15 percent growth. Several factors, including flood-related supply disruptions, relative overvaluation of the taka, and some shift in U.S. apparel sourcing to Mexico, the Caribbean Basin, and southeast Asia contributed to this slowdown. The Bangladesh trade surplus with the U.S. continues to increase; it reached $1.5 billion in calendar year 1998.

The FY99 government deficit increased to 5.3 percent in FY99 compared to 4.2 percent in FY 98, largely due to the economic consequences of the floods in the summer of 1998. Revenue collections suffered due to both tax administration disruptions and a slowdown in economic activity during and after the floods. Tax revenues as a proportion of GDP fell to 7.3 percent in FY99, compared to 7.7 percent in FY98 and 7.6 percent in FY97. Government expenditures increased in response to the flood rehabilitation needs of the country, with expenditures as a proportion of GDP increasing to 14.3 percent in FY99 from 13.9 percent in FY98. Although previous years' Annual Development Plan (ADP) – consisting largely of capital investment - typically fell short of target, ADP expenditures in FY99 actually exceeded the target as a result of increased flood-induced outlays. As in prior years, about 60 percent of the fiscal deficit was financed through external sources (e.g., aid) while domestic sources (e.g., government borrowing) accounted for about 40 percent.

The government's primary monetary policy tools are the discount rate and the sale of Bangladesh Bank bills, though central bank influence over bank lending practices also plays an important role. Broad money growth (M2) increased to 13.1 percent in FY99 from 10.1 percent in FY98, due largely to the government's increased borrowing needs in the wake of the 1998 floods. This increased government borrowing tended to crowd out private borrowing in the first half of FY99. Due to a continuing decline in inflationary pressures during 1999, the central bank lowered its discount rate by one percentage point to seven percent in August 1999.

Although the government has taken some liberal investment measures to foster private sector involvement in the energy, power, and telecommunications sectors, poor infrastructure (e.g., power shortages, port bottlenecks), bureaucratic inertia, corruption, labor militancy, a weak financial system which keeps the cost of capital high, political unrest, and a deteriorating law and order situation continued to discourage domestic and foreign investors in FY99.

2. Exchange Rate Policies

At present, the central bank follows a semi-flexible exchange rate policy, revaluing the currency on the basis of the real effective exchange rate, taking account of the nominal exchange rates and inflation rates of major trading partners. A level of reserves equal to about 2.5 months of imports and a black market rate slightly above the official rate suggests that the currency is still somewhat overvalued. Foreign reserves have stabilized between $1.5 to 1.9 billion through 1997-1999. Although this level is considered "normal" for Bangladesh, the country's foreign exchange position remains fragile. The taka remains under pressure, but its market value is bolstered by annual aid receipts and by remittances from overseas workers. The taka is nearly fully convertible on the current account. The official exchange rate on December 20, 1999 was Taka 51.0 to $1.

Foreign firms are able to repatriate profits, dividends, royalty payments and technical fees without difficulty, provided appropriate documentation is presented to the Bangladesh Bank, the country's central bank. Outbound foreign investment by Bangladeshi nationals requires government approval and must support export activities. Bangladeshi travelers are limited by law to taking no more than $3,000 out of the country per year. Dollars are bought and sold in the black market, fueled by the informal economy. U.S. exports do not appear to have been negatively affected by the taka devaluations in 1998 and 1999.

3. Structural Policies

In 1993, Bangladesh successfully completed a three-year ESAF program, meeting all the IMF fiscal and monetary targets. During the flood-induced economic crisis in 1998, Bangladesh signaled a willingness to enter into another ESAF program; however, as the Bangladeshi economy recovered smartly from the disruptions caused by the floods, Bangladesh's enthusiasm for a new ESAF program waned. Although there is little disagreement between the IMF and Bangladesh on the substance of the economic reforms that need to implemented (i.e., tax reform with better tax administration and a broadening of the tax base; financial sector reform with stronger oversight and supervision by the central bank, improvement in the operation of state-owned commercial banks, and improvement of loan portfolios; and, public sector reform with an acceleration in privatization of state-owned enterprises), negotiations have stalled.

Bangladesh has managed to maintain a laudable measure of macroeconomic stability since 1993, but its macroeconomic position at the end of 1999 remains vulnerable, with slowing export growth, a stagnant industrial sector, inadequate infrastructure, a banking sector in need of comprehensive reforms, and an inefficient public sector that continues to drain the treasury. Progress on important economic reforms has been halting, though the government has instituted reforms of the capital market and taken some market-friendly decisions to encourage foreign investment. Overall, however, efforts at reform often are successfully opposed by vested interest groups, such as the bureaucracy, public sector labor unions or highly protected domestic producers. The public sector still exercises a dominant influence on industry and the economy; non-financial state-owned enterprises (SOEs) lost an estimated $281 million in FY99. Most public sector industries, including textiles, jute processing, and sugar refining, are chronic money losers. Their militant unions have succeeded in setting relatively high wages which their private sector counterparts often feel compelled to meet out of fear of union action.

Private sector productivity is further stunted by the state's poor management of crucial infrastructure (power, railroads, ports, telecommunications, and the national airline), most of which are government monopolies. Recognizing this shortcoming, and in order to increase foreign investment in the power sector, the government formalized in October 1996 its private power policy, which grants tax holidays and duty-free imports of plant and equipment for private sector power producers. As of November 1999, the government was purchasing power from three international power producers, and was negotiating or had signed contracts with others. Private investment is also allowed in the telecommunications sector for cellular communications, and in the hydrocarbons sectors, where international companies initially expressed a high level of interest in a second round of bidding for remaining exploration rights. The difficulties and the high cost of doing business in Bangladesh, combined with weakness in the world oil market, have forced some companies to reconsider or limit their exposure in Bangladesh. Two international companies now deliver natural gas to the government, contributing 15-20 percent of daily supply. The government practically gave up trying to attract foreign portfolio investment in domestic capital markets after a stock market crash in late 1996 and turbulence in other financial markets around the world in 1997 and 1998. Long an easy source of funds for loss-making government corporations and preferred private sector borrowers who did not feel obliged to repay loans, the dysfunctional banking sector continues to be the subject of reform programs. The banking sector is dominated by four large nationalized commercial banks. However, entry of foreign and domestic private banks has been permitted; numerous new private domestic and foreign banks have established a foothold in the market since 1996.

4. Debt Management Policies

Assessed on the basis of disbursed outstanding principal, Bangladesh's external public debt was $16.2 billion in FY99, up slightly from 15.9 billion in FY98. Because virtually all of the debt was provided on highly concessional terms by bilateral and multilateral donors (i.e. one or two percent interest, 30-year maturity, 20-year grace period), the net present value of the total outstanding debt is significantly lower than its face value. The external debt burden has eased during the 1990's with the external public debt as a percentage of GDP falling steadily from 45.8 percent in FY94 to 36.5 percent in FY98. Debt service as a percentage of current receipts has also declined, from 20 percent in FY91 to an estimated 8 percent in FY98. Bangladesh maintains good relationships with the World Bank, Asian Development Bank, the International Monetary Fund and the donor community. There has been no rescheduling of the external debt during FY99. Bangladesh has never defaulted on its external public debt, except in one instance where it deliberately missed a payment to make its point in a commercial dispute involving a loss-making fertilizer factory in which the Bangladesh government was the guarantor of the factory's debts.

5. Aid

No military aid is included in the figures in the tables.

6. Significant Barriers to U.S. Exports

Since 1991, the Government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia. Even so, Bangladesh continues to raise a relatively high share of its government revenues -- nearly 60 percent -- from import-based taxes, custom duties, VAT and supplementary duties on imports. Tariff reform, which began in 1994, has continued to date. The FY 2000 budget accelerated Bangladesh's efforts to shift from a tariff-based revenue system to an income-based one. Some of the more significant FY2000 changes to the tariff regime included: reduction in customs duty brackets from five to four, lowering of the top duty rate from 40 percent to 37.5 percent, and a unification of duty rates for different products within the broad HS code or product category, and a targeted reduction of duties to benefit certain sectors. The budget reduces the average tariff for capital goods from 12.6 percent in FY 99 to 8.9 percent in FY2000, for intermediate goods from 19.1 percent to 15.5 percent, and for consumer goods from 31.8 percent to 29.2 percent. Other reforms announced in the FY2000 budget include broadening coverage of the value added tax (VAT); measures designed to increase transparency, reduce corruption, and limit the discretion of the bureaucracy in adjudicating tax/tariff cases; introduction of a mandatory pre-shipment inspection (PSI) system of customs valuation, and; reduction in the number of personal income tax brackets and simplification of tax administration procedures.

Bangladesh, a founding member of the World Trade Organization (WTO), is subject to all the disciplines of the WTO. Some barriers to U.S. exports or direct investment exist. Policy instability, when policies are altered at the behest of special interests, creates difficulties for foreign companies. A government monopoly controls basic services and long-distance service in the telecommunications market, although the government has allowed private companies to enter the wireless communication market. Nontariff barriers also exist in the pharmaceutical sector, where manufacturing and import controls imposed by the national drug policy and the Drugs (Control) Ordinance of 1982 discriminate against foreign drug companies. Bangladesh is not a signatory to the WTO plurilateral agreements on government procurement or civil aircraft. Government procurement generally takes place through a tendering process, which is not always transparent. Customs procedures are lengthy and burdensome, and sometimes complicated by corruption. Introduction of the PSI system of customs valuation is expected to simplify customs procedures, make valuation less arbitrary, and reduce corruption.

Other drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, excessive regulations, a slow and risk-averse bureaucracy, and uncertain law and order. The lack of effective commercial laws makes enforcement of business contracts difficult. Officially, private industrial investment, whether domestic or foreign, is fully deregulated, and the government has significantly streamlined the investment registration process. Although the government has simplified the registration processes for investors, domestic and foreign investors typically must obtain a series of approvals from various government agencies to implement their projects. Bureaucratic red tape, compounded by corruption, slows and distorts decision-making and procurement. Existing export processing zones have successfully facilitated investment and export growth, but are too small to alter significantly the overall investment picture in the country.

Three years ago, the U.S. investment stock in Bangladesh was very small, totaling around $25 million, primarily in the assets of service companies and a few manufacturing operations. As work began in late 1997 and 1998 based on agreements between the government and U.S. companies in gas exploration and production, lubricants and energy production, the amount of U.S. investment rose significantly, to about $700 million. Other opportunities for significant investment in gas exploration and production, power generation and private port construction/operation could further swell U.S. investment and trade.

7. Export Subsidies Policies

The government encourages export growth through measures such as duty-free status for some imported inputs, including capital machinery and cotton, and easy access to financing for exporters. Ready-made garment producers are assisted by bonded warehousing and back-to-back letter of credit facilities for imported cloth and accessories. The central bank offers a 25 percent rebate to domestic manufacturers of fabric for ready-made garment exports. Exporters are allowed to exchange 100 percent of their foreign currency earnings through any authorized dealer. Government-financed interest rate subsidies to exporters have been reduced in stages over five years. Bangladesh has established Export Processing Zones (EPZs) in Chittagong and Dhaka, and has plans to open four more. Korean investors are undertaking to build and operate a private EPZ in Chittagong.

8. Protection of U.S. Intellectual Property

Bangladesh is a signatory of the Uruguay Round agreements, including the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2006. Bangladesh has also been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985. Bangladesh has never been cited in the U.S. Trade Representative's "Special 301" Watch List, which identifies countries that deny adequate and effective protection for intellectual property rights or deny fair and equitable market access for persons that rely on intellectual property protection. Even though Bangladesh has not been placed on the "Special 301" Watch List, it has outdated Intellectual Property Rights (IPR) laws, an unwieldy system of registering intellectual property rights, and a weak enforcement mechanism. Intellectual property infringement is common, particularly of computer software, motion pictures, pharmaceutical products and audio and video cassettes. Despite the difficulties, U.S. firms have successfully pursued their IPR rights in Bangladeshi courts. A draft new Copyright Law to update Bangladesh's copyright system and bring it in compliance with TRIPS is before the cabinet for approval; the government expects to enact new legislation in the year 2000 to update its laws concerning trademarks, patents and industrial design.

9. Worker Rights

a. The Right of Association: Bangladesh's Constitution guarantees freedom of association, the right to join unions, and, with government approval, the right to form a union.

With the exception of workers in the railway, postal, telegraph, and telephone sectors, government civil servants are forbidden to join unions. However, some workers covered by this ban have formed unregistered unions. The ban also applies to security-related government employees, such as in the military and police. Civil servants forbidden to join unions, such as teachers and nurses, have joined associations that perform functions similar to labor unions.

b. The Right to Organize and Bargain Collectively: Many unions in Bangladesh are highly politicized. Virtually all the National Trade Union centers are affiliated with political parties, including one with the ruling party. Pitched battles between members of rival labor unions occur regularly. Some unions are militant and allegedly engage in intimidation and vandalism. Unions do use their rights to call labor strikes.

The Essential Services Ordinance permits the government to bar strikes for three months in any sector deemed “essential.” Mechanisms for conciliation, arbitration and labor court dispute resolution were established under the Industrial Relations Ordinance of 1969. There have been numerous complaints of garment workers being harassed and fired in some factories for trying to organize workers. Workers in Bangladesh’s EPZs are prohibited from forming unions, and the government has not fulfilled promises that restrictions on freedom of association and formation of unions in the EPZs would be lifted in stages between 1995 and 2000. The AFL-CIO has petitioned the U.S. Trade Representative to revoke General System of Preference benefits for Bangladesh for its failure to keep its commitment to restore full labor rights in the EPZs.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced or compulsory labor. The Factories Act and the Shops and Establishments Act, both passed in 1965, set up inspection mechanisms to guard against forced labor, but resources for enforcement are scarce. There is no evidence of forced labor, though conditions for some domestic servants resemble servitude, and some trafficked women and children work as prostitutes.

d. Minimum Age for Employment of Children: Bangladesh has laws that prohibit labor by children. The Factories Act bars children under the age of 14 from working in factories. In reality, enforcement of these rules is inadequate. According to United Nations estimates, about one third of Bangladesh’s population under the age of 18 is working. In a society as poor as Bangladesh’s, the extra income obtained by children, however meager, is sought by many families. In July 1995, Bangladesh garment exporters signed a memorandum of understanding that has virtually eliminated child labor in the garment export sector. Under the MOU, schools and a stipend program were established for displaced child workers. A monitoring system managed by the ILO enforces the MOU. As a result of the MOU, child labor has been virtually eliminated from the garment export sector.

e. Acceptable Conditions of Work: Regulations regarding minimum wages, hours of work, and occupational safety and health are not strictly enforced. The legal minimum wage varies depending on occupation and industry. It is generally not enforced. The law sets a standard 48-

hour workweek with one mandated day off. A 60-hour workweek, inclusive of a maximum 12 hours of overtime, is allowed. Relative to the average standard of living in Bangladesh, the average monthly wage could be described as sufficient for minimal, basic needs. The Factories Act of 1965 nominally sets occupational health and safety standards. The law is comprehensive, but is largely ignored by many Bangladeshi employers.

f. Rights in Sectors with U.S. Investment: There are few manufacturing firms with U.S. investment. As far as can be determined, firms with U.S. capital investment abide by the labor laws. Similarly, these firms respect the minimum age for the employment of children. According to both the government and representatives of the firms, workers in firms with U.S. capital investment generally earn a much higher salary than the minimum wage set for each specific industry, and enjoy better working conditions.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		-4
Services		0
Other Industries		-2
TOTAL ALL INDUSTRIES		172

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.